

March 25, 2011

Yolanda Cruz
President
Municipal Employees' Federation, AFSCME Local 101
c/o Library Department

LaVerne Washington
President
Confidential Employees' Organization, AFSCME Local 101
c/o City Attorney's Office

RE: MEF & CEO Negotiation Concerns

Dear Yolanda and LaVerne:

We wanted to address some concerns that were raised in our negotiations meeting on March 21, 2011, and during the City Council meeting on March 22, 2012.

First, we wanted to address your concern regarding the safety of the conference room we held our negotiations in on March 21st. Although there have been hundreds of meetings and trainings held in that particular conference room and no previous concerns have been raised, we will make every effort to avoid meeting in this room in the future.

During the City Council open session presentation on March 22, 2011, MEF & CEO indicated that the City has not provided information that is publically available. Please provide us with the items from your information request that you believe are publically available that the City has failed to provide. Also, during the March 22nd City Council open session presentation, MEF & CEO commented that the City did not provide projected cost savings and that the City simply gave MEF & CEO "blind proposals" in the City's Package Proposal A. This is not accurate with what transpired during our negotiations.

At our bargaining session just the day before, I walked through every aspect of the City's Package Proposal A, even though the majority of proposals included in the package had been provided to and discussed with MEF & CEO at prior negotiation meetings. We had a lengthy discussion about the City's wage proposal, total compensation, fixed and variable costs related to total compensation, and specifically how the City calculates total compensation. During this discussion, I utilized the 1% numbers we previously provided you on March 7, 2011, and walked through the City's calculation of total compensation.

Before moving on to the next proposal, I offered to walk through the calculation again using the whiteboard, and was told that was not necessary. To help clarify how changes to one component of an employees' cost affects total compensation, we have attached an information sheet, which discusses the topic of total compensation. Although we understand the topic of

total compensation can be confusing, it is inaccurate to indicate that we did not attempt to provide information on the City's proposals.

Though we provided this information at our March 21st meeting, again, here are the estimated cost savings of the City's Package Proposal A for MEF & CEO. MEF's total cost savings as proposed by City's Package Proposal A are \$16,813,574, which includes \$14,743,346 of savings in base pay reduction and \$2,070,228 in healthcare changes. CEO's total cost savings as proposed by City's Package Proposal A are \$2,225,218, which includes \$1,997,815 of savings in base pay reduction and \$227,403 of savings in healthcare changes.

This proposal is consistent with the City Council's authorization to achieve a 10% total compensation reduction, which includes the healthcare changes recommend by the City Auditor and approved by City Council in 2009, the rolling back of the general wage increase received by MEF & CEO in Fiscal Year 2010-2011, and the additional reforms applicable to MEF & CEO. Again, our proposal is consistent with the City Council's authorization, which was summed up in a memo and provided to you on February 16, 2011. In case you no longer have a copy of that memo, we are providing you a link to the memo:

<http://www.sanjoseca.gov/employeeRelations/labor/RecommendationsonLaborNegotiationsDirection.pdf>.

Sincerely,



Gina Donnelly
Deputy Director of Employee Relations

c: Charles Allen, AFSCME Business Representative

Attachment

Understanding Changes to Total Compensation

The total cost of an employee is comprised of various components, including:

- Base Salary (not including overtime)
- City's cost of Retirement Benefits
- City's cost of Healthcare Benefits

When all of these components are added up, they comprise an employee's total compensation. As there has been some confusion about how changes to one component of the total cost of an employee affects total compensation, we have created a few examples below. For simplicity we are using a total compensation of \$100 dollars with a target of 10% total compensation savings, which would be \$10 using our numbers below.

Example 1: 10% Salary Reduction

Current Compensation	Amount		Current Compensation	Amount
Salary	\$80.00	→	Salary	\$72.00
Retirement Benefits	\$15.00		Retirement Benefits	\$15.00
Health Benefits	\$5.00		Health Benefits	\$5.00
Total Compensation	\$100.00		Total Compensation	\$92.00
Total Compensation Reduction Goal	\$10.00		Total Compensation Reduction	\$8.00

You can see above that decreasing the salary by 10% achieves \$8 in salary savings. Since the retirement benefits and health benefits did not change, the Total Compensation savings is \$8 and is \$2 short of our goal.

Example 2: 10% Salary Reduction and 10% Savings in Health Benefits

Current Compensation	Amount		Current Compensation	Amount
Salary	\$80.00	→	Salary	\$72.00
Retirement Benefits	\$15.00		Retirement Benefits	\$15.00
Health Benefits	\$5.00	→	Health Benefits	\$4.50
Total Compensation	\$100.00		Total Compensation	\$91.50
10% Total Compensation Reduction	\$10.00		Total Compensation Reduction	\$8.50

You can see above that decreasing the salary by 10% and the health benefits by 10% achieves \$8.50 in savings. Since the retirement benefits did not change, the Total Compensation savings is \$8.50 and is \$1.50 short of our goal.

Example 3: 12.5% Salary Reduction

Current Compensation	Amount		Current Compensation	Amount
Salary	\$80.00	→	Salary	\$70.00
Retirement Benefits	\$15.00		Retirement Benefits	\$15.00
Health Benefits	\$5.00		Health Benefits	\$5.00
Total Compensation	\$100.00		Total Compensation	\$90.00
10% Total Compensation Reduction	\$10.00		Total Compensation Reduction	\$10.00

You can see above that decreasing the salary by 12.5% achieves \$10.00 in salary savings. Even though the retirement benefits and health benefits did not change, the Total Compensation savings goal of \$10 was achieved.

As you can see from the examples above, the amount of total compensation savings achieved is largely dependent on the component's percentage of total compensation. For example, if salary comprises 60% of an employee's total compensation, changes to salary will have a smaller effect than if the employee's salary comprised 80% of their total compensation.